

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>Township of Pokagon</u>	County Cass
Audit Date March 31, 2005	Opinion Date August 29, 2005	Date Accountant Report Submitted To State: September 28, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): Plante & Moran, PLLC			
Street Address Suite 120, 511 Renaissance Drive	City St. Joseph	State MI	ZIP 49085
Accountant Signature 			

Township of Pokagon, Michigan

Financial Report
with Supplemental Information
March 31, 2005

Township of Pokagon

Contents

Report Letter	I
Management's Discussion and Analysis	2-5
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	6
Statement of Activities	7
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	8
Statement of Revenue, Expenditures, and Changes in Fund Balances	9
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	10
Fiduciary Funds - Statement of Assets and Liabilities	11
Notes to Financial Statements	12-19
Required Supplemental Information	20
Budgetary Comparison Schedule - General Fund	21
Budgetary Comparison Schedule - Major Special Revenue Fund	22
Note to Required Supplemental Information	23



Plante & Moran, PLLC

Suite 12C

511 Renaissance Drive

St. Joseph, MI 49085

Tel: 269.982.800C

Fax: 269.982.280C

plantemoran.com

Independent Auditor's Report

To the Members of the Township Board
Township of Pokagon, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Pokagon as of and for the year ended March 31, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township of Pokagon's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Pokagon as of March 31, 2005 and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

As described in Note 7, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of April 1, 2004.

Plante & Moran, PLLC

August 29, 2005

Township of Pokagon

Management's Discussion and Analysis

Our discussion and analysis of the Township of Pokagon's financial performance provides an overview of the Township's financial activities for the fiscal year ended March 31, 2005. Please read it in conjunction with the Township's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended March 31, 2005:

- State-shared revenue, our second largest revenue source, was reduced by the State of Michigan by approximately \$7,200 this year. The Township reacted by not starting any new projects and controlling spending in all departments, which resulted in a fund balance increase of approximately \$70,000 in the General Fund.
- The Township received federal grant revenue and incurred offsetting expenditures relating to road construction for approximately \$58,000.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant funds. The fiduciary fund statements provide financial information about activities for which the Township acts solely as a trustee or agent for the benefit of those outside of the government.

Township of Pokagon

Management's Discussion and Analysis (Continued)

The Township as a Whole

The following table shows, in a condensed format, the net assets as of March 31, 2005. In future years when prior year information is available, comparative data will be presented.

	Governmental Activities
Assets	
Current assets	\$ 1,102,317
Noncurrent assets	<u>169,821</u>
Total assets	1,272,138
Current Liabilities	<u>9,858</u>
Net Assets	
Invested in capital assets	169,821
Restricted	78,333
Unrestricted	<u>1,014,126</u>
Total net assets	<u><u>\$ 1,262,280</u></u>

The Township's net assets increased approximately 10 percent from a year ago - increasing from \$1,147,466 to \$1,262,280. Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations - increased by \$111,277 for the governmental activities. This represents an increase of approximately 12 percent. The current level of unrestricted net assets for our governmental activities stands at \$1,262,280, or about 370 percent of expenditures.

Township of Pokagon

Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the current year. In future years when prior year information is available, comparative data will be presented.

	Governmental Activities
Revenue	
Program revenue:	
Charges for services	\$ 28,762
Operating grants and contributions	12,196
Capital grants and contributions	57,766
General revenue:	
Property taxes	177,788
State-shared revenue	151,403
Unrestricted investment earnings	11,944
Franchise fees	7,101
Other revenue	6,301
Total revenue	453,261
Program Expenses	
General government	124,913
Public safety	118,635
Community and economic development	94,899
Total program expenses	338,447
Change in Net Assets	\$ 114,814

Governmental Activities

The Township's total governmental revenues increased by approximately \$34,000, despite decreases in state-shared revenue, building permits, and interest income. The increase, which represents 8 percent, was primarily a federal grant received in 2005.

Expenses decreased by about \$29,000 during the year. Decreases were led by postponing major projects and purchases.

Township of Pokagon

Management's Discussion and Analysis (Continued)

The Township's Funds

Our analysis of the Township's major funds begins on page 8, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Township as a whole. The Township board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages for fire and ambulance services. The Township's major funds for 2005 include the General Fund and the Fire Fund.

The General Fund pays for most of the Township's governmental services. The most significant is public safety, which incurred expenses of approximately \$118,000 in 2005. These two services are partially supported by property taxes.

General Fund Budgetary Highlights

There were no variations between original and final budget amounts. The Township received federal grant revenue and incurred offsetting expenditures relating to road construction for approximately \$58,000, which was the only significant budget variance.

Capital Asset and Debt Administration

There were no major capital asset purchases or issuance of debt during the current year.

Economic Factors and Next Year's Budgets and Rates

The Township is anticipating 1,500 acres of property coming off the tax rolls once the Pokagon Band of Potawatomi Indians' application is approved for trust status. The Township has not yet determined the effect of this transaction on the revenue of the Township.

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

Township of Pokagon

Statement of Net Assets March 31, 2005

	Governmental Activities
Assets	
Cash and investments (Note 3)	\$ 1,061,311
Receivables - Net (Note 4)	41,006
Capital assets - Net (Note 5)	<u>169,821</u>
Total assets	1,272,138
Liabilities	
Accounts payable	9,083
Accrued and other liabilities	<u>775</u>
Total liabilities	<u>9,858</u>
Net Assets	
Invested in capital assets	169,821
Restricted:	
Cemetery	76,783
Construction code activities (Note 2)	1,550
Unrestricted	<u>1,014,126</u>
Total net assets	<u><u>\$ 1,262,280</u></u>

Township of Pokagon

Statement of Activities Year Ended March 31, 2005

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government - Governmental Activities	
Expenses					
Functions/Programs					
Primary government - Governmental activities:					
General government	\$ 124,913	\$ 22,336	\$ -	\$ -	
Public safety	118,635	3,375	-	-	
Community and economic development	94,899	3,051	12,196	57,766	
Total governmental activities	<u>\$ 338,447</u>	<u>\$ 28,762</u>	<u>\$ 12,196</u>	<u>\$ 57,766</u>	
General revenues:					
Property taxes				177,788	
State-shared revenues				151,403	
Unrestricted investment earnings				11,944	
Franchise fees				7,101	
Other revenue				6,301	
Total general revenues				354,537	
Change in Net Assets				114,814	
Net Assets - Beginning of year				1,147,466	
Net Assets - End of year				\$ 1,262,280	

Township of Pokagon

Governmental Funds Balance Sheet March 31, 2005

			Nonmajor Funds		
			Cemetery	Ambulance	Total
	General Fund	Fire Special Revenue Fund	Special Revenue Fund	Special Revenue Fund	Governmental Funds
Assets					
Cash and investments (Note 3)	\$ 802,724	\$ 175,840	\$ 76,783	\$ 5,964	\$ 1,061,311
Receivables - Net (Note 4)	30,219	9,306	-	1,481	41,006
Total assets	<u>\$ 832,943</u>	<u>\$ 185,146</u>	<u>\$ 76,783</u>	<u>\$ 7,445</u>	<u>\$ 1,102,317</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 9,083	\$ -	\$ -	\$ -	\$ 9,083
Accrued and other liabilities	775	-	-	-	775
Total liabilities	9,858	-	-	-	9,858
Fund Balances					
Reserved for:					
Cemetery	-	-	76,783	-	76,783
Construction code activities (Note 2)	1,550	-	-	-	1,550
Unreserved, reported in:					
General Fund	821,535	-	-	-	821,535
Special Revenue Funds	-	185,146	-	7,445	192,591
Total fund balances	<u>823,085</u>	<u>185,146</u>	<u>76,783</u>	<u>7,445</u>	<u>1,092,459</u>
Total liabilities and fund balances	<u>\$ 832,943</u>	<u>\$ 185,146</u>	<u>\$ 76,783</u>	<u>\$ 7,445</u>	
Amounts reported for governmental activities in the statement of net assets are different because capital assets used in governmental activities are not financial resources and are not reported in the funds					<u>169,821</u>
Net assets of governmental activities					<u>\$ 1,262,280</u>

Township of Pokagon

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended March 31, 2005

			Nonmajor Funds		
			Cemetery	Ambulance	Total
			Special	Special	Governmental
	General Fund	Fire Special Revenue Fund	Revenue Fund	Revenue Fund	Funds
Revenue					
Property taxes	\$ 42,917	\$ 121,171	\$ -	\$ 13,700	\$ 177,788
Federal sources	57,766	-	-	-	57,766
State sources	158,260	-	-	-	158,260
Fees and permits	27,413	-	-	-	27,413
Interest income	10,834	509	596	4	11,943
Other	14,927	2,156	3,008	-	20,091
Total revenue	312,117	123,836	3,604	13,704	453,261
Expenditures					
General government	126,900	-	-	-	126,900
Public safety	20,581	85,769	-	12,285	118,635
Community and economic development	94,899	-	-	-	94,899
Total expenditures	242,380	85,769	-	12,285	340,434
Net Change in Fund Balances	69,737	38,067	3,604	1,419	112,827
Fund Balances - Beginning of year	753,348	147,079	73,179	6,026	979,632
Fund Balances - End of year	<u>\$ 823,085</u>	<u>\$ 185,146</u>	<u>\$ 76,783</u>	<u>\$ 7,445</u>	<u>\$ 1,092,459</u>

Township of Pokagon

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended March 31, 2005

Net Change in Fund Balances - Total Governmental Funds	\$ 112,827
---	-------------------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Additions	10,262
Depreciation	<u>(8,275)</u>

Change in Net Assets of Governmental Activities	<u>\$ 114,814</u>
--	--------------------------

Township of Pokagon

Fiduciary Funds **Statement of Fiduciary Assets and Liabilities** **March 31, 2005**

	<u>Agency Fund</u>
Assets - Cash and cash equivalents (Note 3)	<u><u>\$ 2,729</u></u>
Liabilities - Due from other governmental units	<u><u>\$ 2,729</u></u>

Township of Pokagon

Notes to Financial Statements March 31, 2005

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Township of Pokagon (the "Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Township of Pokagon:

Reporting Entity

The Township of Pokagon is governed by an elected five-member board of trustees. The accompanying financial statements present the activities of the Township. There are no component units to be included in these financial statements in accordance with accounting principles generally accepted in the United States of America.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Individual governmental funds are reported as separate columns in the fund financial statements.

Note I - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue and interest associated with the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

The Township reports the following major governmental funds:

General Fund - The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. General Fund activities as financed by revenue from property taxes, state-shared revenue, and other sources.

Special Revenue Fund - Fire Fund - The Fire Fund accounts for resources from a property tax levy restricted for payments to contracted local fire departments.

Additionally, the Township reports the following fund type:

Agency Fund - The Agency Fund accounts for property taxes collected by the Township in a trustee capacity and the assets held are due to other funds or other governmental units. This fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations.

Township of Pokagon

Notes to Financial Statements March 31, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Property Tax Revenue

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Township's 2004 tax is levied and collectible on December 1, 2004 and is recognized as revenue in the year ended March 31, 2005, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2004 taxable valuation of the Township totaled \$51,538,511, on which taxes levied consisted of .8343 mills for operating purposes. There were also taxes levied for fire and ambulance services (with varying taxable properties and millages). This resulted in \$42,917 for operating, \$121,171 for contracted fire services, and \$13,700 for contracted ambulance services. These amounts are recognized in the respective General and Special Revenue Funds financial statements as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Capital Assets - Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Township of Pokagon

Notes to Financial Statements March 31, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Land improvements	40 years
Buildings and improvements	40 years
Public safety vehicle	25 years
Office furnishings	3 to 5 years

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Construction Code Fees - The Township oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Township charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall generated since January 1, 2000 is as follows:

Accumulated surplus - April 1, 2004		\$	1,819
Current year building permit revenue			12,424
Related expenses:			
Direct costs	\$	7,788	
Estimated indirect costs		<u>4,905</u>	<u>12,693</u>
Current year deficiency			<u>(269)</u>
Accumulated surplus - March 31, 2005		\$	<u><u>1,550</u></u>

Township of Pokagon

Notes to Financial Statements March 31, 2005

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Township has designated three banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized to invest surplus funds in Michigan banks, savings and loan associations, and credit unions that belong to the Federal Deposit Insurance Corporation or are insured by the National Credit Union Administration. The Township of Pokagon's deposits and investment policies are in accordance with statutory authority.

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and cash equivalents	\$ 405,337	\$ 2,729	\$ 408,066
Investments	655,974	-	655,974
Total	<u>\$ 1,061,311</u>	<u>\$ 2,729</u>	<u>\$ 1,064,040</u>

The breakdown between deposits and investments for the Township is as follows:

Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 408,066
Investments in securities, mutual funds, and similar vehicles	<u>655,974</u>
Total	<u>\$ 1,064,040</u>

Township of Pokagon

Notes to Financial Statements March 31, 2005

Note 3 - Deposits and Investments (Continued)

Deposits

The bank balance of the Township's deposits is \$417,949, of which \$277,041 is covered by federal depository insurance. The remainder was uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits Township funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments

The Township's investments during the year consisted solely of bank investment pools. There was \$655,974 invested in such funds at March 31, 2005. Investments are normally categorized to give an indication of the level of risk assumed by the Township; however, these funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. The Township believes that the investments in these funds comply with the investment authority noted above. The bank investment pools are regulated by the Michigan Banking Act, and the fair value of the position in the pool is the same as the value of the pool shares.

Note 4 - Receivables

Receivables as of year end for the Township's individual major funds and the aggregate nonmajor funds are as follows:

	General	Fire Special		
	Fund	Revenue	Nonmajor	Total
		Fund	Funds	
Receivables:				
Taxes	\$ 3,133	\$ 9,306	\$ 1,481	\$ 13,920
Intergovernmental	27,086	-	-	27,086
Net receivables	<u>\$ 30,219</u>	<u>\$ 9,306</u>	<u>\$ 1,481</u>	<u>\$ 41,006</u>

Township of Pokagon

Notes to Financial Statements March 31, 2005

Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance April 1, 2004	Additions	Balance March 31, 2005
Governmental Activities			
Capital assets not being depreciated - Land	\$ 14,648	\$ -	\$ 14,648
Capital assets being depreciated:			
Land improvements	7,362	-	7,362
Buildings and improvements	89,801	3,729	93,530
Public safety vehicle	81,707	-	81,707
Office furnishings	30,997	6,533	37,530
Subtotal	209,867	10,262	220,129
Accumulated depreciation:			
Land improvements	3,752	185	3,937
Buildings and improvements	19,436	2,338	21,774
Public safety vehicle	3,268	3,268	6,536
Office furnishings	30,225	2,484	32,709
Subtotal	56,681	8,275	64,956
Net capital assets being depreciated	153,186	1,987	155,173
Net capital assets	<u>\$ 167,834</u>	<u>\$ 1,987</u>	<u>\$ 169,821</u>

Depreciation expense was charged to general government in the amount of \$8,275.

Note 6 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Township participates in the Michigan Townships Participating Plan for all claims.

The Michigan Townships Participating Plan operates as an insurance purchasing pool for local units of government in Michigan. The plan purchases commercial insurance on behalf of its members at a lower cost than would be available on an individual basis.

Note 7 - Accounting and Reporting Change

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. For the year beginning April 1, 2004, the Township adopted GASB Statement No. 34 and has applied the provisions of this statement in the accompanying financial statements (including the notes to the financial statements). Certain significant changes in the statement include the following:

- A management's discussion and analysis (MD&A) section providing an analysis of the Township's overall financial position and results of operations
- Financial statements prepared using full accrual accounting for all of the Township's activities
- A change in the fund financial statements to focus on the major funds
- Capital assets in the governmental activities column of the statement of net assets includes assets totaling approximately \$220,000 that would previously have been reported in the General Fixed Assets Account Group.
- Capital assets at March 31, 2004 previously reported in the General Fixed Assets Account Group have been adjusted by approximately \$12,000 to reflect the historical cost of the Township's capital assets at that date.

Required Supplemental Information

Township of Pokagon

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended March 31, 2005

	Original/Amended Budget	Actual	Variance with Final Budget
Revenue			
Property taxes	\$ 40,000	\$ 42,917	\$ 2,917
Federal sources	-	57,766	57,766
State sources	151,504	158,260	6,756
Fees and permits	33,000	27,413	(5,587)
Interest income	8,000	10,834	2,834
Other	13,170	14,927	1,757
Total revenue	245,674	312,117	66,443
Expenditures			
General government:			
General	29,974	22,444	7,530
Supervisor	42,930	42,744	186
Elections	3,000	2,182	818
Clerk	14,142	15,401	(1,259)
Board of Review	800	1,570	(770)
Treasurer	14,342	14,234	108
Township Hall	18,444	9,505	8,939
Cemetery	14,180	10,691	3,489
Other	14,500	8,129	6,371
Total general government	152,312	126,900	25,412
Public safety	30,500	20,581	9,919
Community and economic development	61,750	94,899	(33,149)
Total expenditures	244,562	242,380	2,182
Change in Net Assets	1,112	69,737	68,625
Fund Balance - Beginning of year	753,348	753,348	-
Fund Balance - End of year	<u>\$ 754,460</u>	<u>\$ 823,085</u>	<u>\$ 68,625</u>

Township of Pokagon

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Fund - Fire Fund Year Ended March 31, 2005

	Original/Amended Budget	Actual	Variance with Final Budget
Revenue			
Property taxes	\$ 96,000	\$ 121,171	\$ 25,171
Interest income	1,200	509	(691)
Other	-	2,156	2,156
Total revenue	97,200	123,836	26,636
Expenditures - Public safety	79,950	85,769	(5,819)
Change in Net Assets	17,250	38,067	20,817
Fund Balance - Beginning of year	147,079	147,079	-
Fund Balance - End of year	<u>\$ 164,329</u>	<u>\$ 185,146</u>	<u>\$ 20,817</u>

Township of Pokagon

Note to Required Supplemental Information

Note - Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and Fire Special Revenue Fund. All annual appropriations lapse at fiscal year end. The Township supervisor prepares the budget 30 to 60 days prior to year end after consulting with department heads. The budget is submitted to the board for approval in late March.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the department level.

Encumbrance accounting is not employed in governmental funds. Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the Township of Pokagon, Michigan incurred expenditures that were in excess of the amounts budgeted as follows:

	Budget	Actual
General Fund:		
Community and economic development	\$ 61,750	\$ 94,899
Clerk	14,142	15,401
Board of Review	800	1,570
Fire Fund - Public safety	79,950	85,769

The most significant expenditure in excess of budgeted amount is for community and economic development, which is due to unexpected expenditures relating to road construction and is offset by unbudgeted federal grant revenue. The other expenditures in excess of the budgeted amounts are due to unexpected expenditures during the year, and have been offset by unexpected revenue during the year.



Plante & Moran, PLLC
Suite 120
511 Renaissance Drive
St. Joseph, MI 49085
Tel: 269.982.8000
Fax: 269.982.2800
plantemoran.com

Members of the Township Board
Township of Pokagon
30683 Peavine St.
Dowagiac, MI 49047

Dear Board Members:

We have recently completed our audit of the financial statements of the Township of Pokagon for the year ended March 31, 2005 and have issued our report thereon dated August 29, 2005. In addition to the audit report, we offer the following comments and recommendations for your consideration:

PREPARATION FOR THE AUDIT

It continues to be a pleasure to work with the staff at the Township. In particular, we would like to thank Linda, Carrie, and Kevin for their efforts in preparing for the audit.

OVERVIEW OF FINANCIAL CONDITION

During the year ended March 31, 2005, the Township's financial condition improved as General Fund revenues exceeded expenditures by approximately \$70,000. As a result, fund balance at March 31, 2005 increased to approximately \$823,000

STATE SHARED REVENUE

State shared revenue accounts for approximately 48.5 percent of the Township's total General Fund revenue. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's budget problems which have resulted in additional appropriation reductions to the revenue sharing line item in the State's budget, revenue sharing payments for the last several years have been less than anticipated.

Although sales tax revenue would support an increase to total state shared revenue payments, the State's budget situation remains troublesome at best. As you are probably aware, the Governor's budget for the State's 2004/2005 fiscal year contains a provision to not pay counties statutory revenue sharing (the counties' only source of revenue sharing). Instead, the counties will change their property tax levy date for their operating millage from December to July (beginning in 2005). A portion of the additional funds generated from the early property tax levy will be used by the counties over a multiple year period to replace statutory revenue sharing that will not be paid by the State. The plan calls for the return of statutory revenue sharing for the counties when their restricted monies from the early levy run out.

STATE SHARED REVENUE (continued)

A key part to this plan allows the State to hold revenue sharing payments to cities, villages and townships for the State's 2004/2005 fiscal year at the prior year levels. This plan was approved by the Michigan legislature and signed by the Governor. The State has closed in 2004 fiscal year without the need for a supplemental appropriation to balance the budget. While early indications were that the State would experience a \$100 million shortfall in General Fund General Purpose revenue for its year ended September 30, 2004, the State luckily made up the difference with some unplanned Federal revenue and other monies.

The Governor recently unveiled her Executive Order to remedy a \$375 million shortfall in the State's fiscal year 2004/2005 budget identified in the December 2004. It proposed no further cuts to revenue sharing. This is very good news for local government, particularly those units with a June year end, as making budgetary adjustments with just about 4 months remaining in their fiscal year would have proven difficult for many governmental units. However, the Legislature rejected the Executive Order and negotiations continue.

It is generally acknowledged that the State's budget woes will continue for several more years. The Governor presented her FY 2005/2006 budget with a "shortfall" (defined as the difference between projected revenue for FY 05/06 and the current cost of government services) of \$773 million. Revenue sharing has been budgeted amount at approximately \$1.1 billion, which is basically the FY 04/05 funding level. What does this mean? It appears to mean that no further reductions to revenue sharing below the current FY 04/05 funding level is being proposed. Because the existing statutory formula is being deviated from, the revenue sharing act will require an amendment.

PROPERTY TAX MATTERS

Since our last audit, there have been a number of bills involving property taxes that impact local governments. The following is a highlight of several of the bills:

- HB 4880, as passed by the House in August 2004, proposes to increase property taxes for mobile home owners with additional monies earmarked for local governments.
- HB 6017 was introduced to address the inconsistent treatment of assessing commercial property using the occupancy method. The inconsistent treatment occurs when the taxable value of a commercial property is reduced based on a loss in occupancy and a corresponding increase will not occur when occupancy increases resulting in a permanent taxable cap on property (subject to annual inflationary increases). This treatment is a result of what is commonly referred to as the "WPW Case" involving the Township of Troy.
- HB 4649 was passed by the House and would allow for local governments to pass a resolution exempting new construction on homestead property used as a living area from property taxes (subject to certain limitations) in all or just certain areas of the local jurisdiction.
- HB 5358 was introduced and would change the requirements for personal property tax examiners including: requiring the State Tax Commission to qualify examiners based on experience and examination; require examiners to be employees of a local government; and make payments to examiners on a per parcel basis.

PROPERTY TAX MATTERS (Continued)

- HB 5538, as passed by the House, exempts property under development from school operating taxes (18 mills) by classifying the property as “homestead” property. The bill also proposes to not allow the taxable value of property to “uncap” when the property is sold to a new owner.
- HB 4234, as passed by the House, would provide a personal property tax exemption to businesses with taxable value of personal property of \$7,500 or less (these businesses would be exempt from paying any personal property taxes). Language was included in the House that any revenue loss to local governments would be reimbursed by the State. However, these monies would require an appropriation by the Legislature.

DEPOSIT AND INVESTMENT RISK DISCLOSURES

The Governmental Accounting Standards Board has released Statement Number 40, Deposit and Investment Risk Disclosures. This pronouncement is effective for the Township's March 31, 2006 year-end financial statement and amends the Deposit and Investment Risk disclosures previously prescribed by GASB 3. Under GASB 40, the Township must disclose applicable investment risks due to custodial credit risk (originally required by GASB 3) as well as new disclosures for concentration credit risk, interest rate fluctuation risk, and foreign currency risk. In addition, the Township must disclose its investment policy addressing each applicable risk. We encourage you to review your investment policies and update as necessary, to ensure the policies adequately address the risks associated with each type of investment made by the Township. We will be happy to assist you with the specifics of this new standard.

BANK RECONCILIATIONS

We noted that bank reconciliations are being prepared by the Treasurer, who is also responsible for the collection of cash receipts. These bank reconciliations are not being reviewed by someone independent of the review process. Although the staffing levels do not leave much room for segregation of duties, at a minimum, there be a formal review process put into place where someone independent of its preparation verifies the accuracy.

ACH TRANSACTIONS

Electronic payments of public funds are required for some federally mandated transactions of public funds, and electronic payments have become a commonly accepted practice by banks and other financial institutions. Public Act 738 of 2002, effective December 30, 2002, authorizes townships to make electronic transactions involving public funds by electronic payment, debit, or credit transfer processed through an automated clearing house. PA 738 authorizes a township treasurer to enter into an ACH arrangement for a national and governmental organization that has authority to process electronic payments (ACH), including, but not limited to, the national automated clearing house association and the federal reserve system.

The Township has only had a few ACH transfers in the last few years, but they do occur. The Township should develop a control system and resolution in regard to these electronic transactions as technology continues to evolve and ACH transfers become more common.

DATA BACKUP

In reviewing your computer software processing controls, we noted that data backups to disk are performed every two to three weeks, and the disks are stored in Township Hall. We recommend, at a minimum, weekly backups and that backup disks be stored off site.

We would like to thank the Members of the Township Board for the opportunity to serve as the auditors for the Township. We would also like to express our appreciation for the courtesy and cooperation extended to us during our audit. As always, please feel free to call with questions regarding the information above or that which is presented in the general purpose financial statements.

Plante & Moran, PLLC

August 29, 2005